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UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE BOARD OF PATENT APPEALS
AND INTERFERENCES

Ex parte KURT C. MCCRAKEN and ERIC ZIEGLER

Appeal 2007-3081
Application 09/610,828
Technology Center 3600

Decided: April 15, 2008

Before MURRIEL E. CRAWFORD, DAVID B. WALKER, and JOSEPH A. FISCHETTI, *Administrative Patent Judges*.

Opinion by WALKER, *Administrative Patent Judge*.

Concurring Opinion by FISCHETTI, *Administrative Patent Judge.*

DECISION ON APPEAL

STATEMENT OF THE CASE

Appellants seek our review under 35 U.S.C. § 134 of the Examiner's final rejection of claims 1-29. We have jurisdiction under 35 U.S.C. § 6(b) (2002). The Appellants presented oral argument on March 11, 2008. We affirm.

Appellants claim a machine-based system and method for managing investment assets (Specification 1:2). Claim 1, reproduced below, is representative of the subject matter on appeal.

> 1. A machine-based method for use in connection with investments in real properties comprising:
>
> acquiring one or more real properties from one or more investors through tax advantaged transactions, at least one of the real properties being acquired from one of the investors in exchange for an interest in an investment entity;
>
> using a machine to
>
> (a) track each investor's basis in his interest in the investment entity,
>
> (b) allocate each investor's basis in his interest in the investment entity among real properties acquired by the investment entity,
>
> (c) track the allocated basis of each investor as a result of a succession of tax-advantaged exchange transactions,
>
> (d) from time to time determine a current value of an interest in the investment entity based on characteristics of the one or more real properties held by the investment entity, and
>
> (e) identify at least one of the real properties as appropriate for disposition, exchanging at least one of the identified real properties that falls outside of an investment profile for at least one other real property in a tax-advantaged exchange;
>
> enhancing the value of at least one of the real properties by physical improvements; and

redeeming an interest of at least one of the investors by the investment entity at a value based on the current value.

THE REJECTIONS

The Examiner relies upon the following as evidence in support of the rejections:

Hitchings	US 2002/0143673 A1	Oct. 3, 2002

Ward, J.M., "An Overview of Limited Liability Companies," The Practical Real Estate Lawyer, March 1993, Vol. 9, No. 2, p. 61.
Moreau, D., "Quick Study: Total Return," Kiplinger's Personal Finance Magazine, Vol. 49, No. 1, p. 111.
"Halifax Account Wrangle" (Abstract), Financial Times, p. IV, December 7, 1991.

The following rejections are before us for review.

1. Claims 1-7, 9-22 and 24-28 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Ward in view of Hitchings, Moreau, and Official Notice.
2. Claims 8, 23, and 29 are rejected under 35 U.S.C. § 103(a) as being unpatentable over Ward in view of Hitchings, Moreau, "Halifax Account Wrangle", and Official Notice.

ISSUE

The issue before us is whether Appellants have shown that the Examiner erred in rejecting: 1) claims 1-7, 9-22 and 24-28 under 35 U.S.C. § 103(a) as being unpatentable over Ward in view of Hitchings, Moreau, and Official Notice; and 2) claims 8, 23, and 29 under 35 U.S.C. § 103(a) as being unpatentable over Ward in view of Hitchings, Moreau, "Halifax Account Wrangle", and Official Notice. The

dispositive issues are whether the Examiner erred in taking Official Notice of certain limitations of the appealed claims and whether the improvement of the appealed claims is more than the predictable use of prior art elements according to their established functions.

Rather than repeat the arguments of Appellants and the Examiner, we make reference to the Briefs and the Answer for their respective details. Only those arguments actually made by Appellants have been considered in this decision. Arguments which Appellants could have made, but chose not to make in the Briefs have not been considered and are deemed to be waived. *See* 37 C.F.R. § 41.37(c)(1)(vii) (2004).

FINDINGS OF FACT

We find the following enumerated findings to be supported by at least a preponderance of the evidence. *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427 (Fed. Cir. 1988) (explaining the general evidentiary standard for proceedings before the Office).

1. Ward teaches that limited liability companies (LLCs) offer an ideal alternative to other forms of business entities for real estate investments (Ward, abstract).
2. A contribution to an LLC can include cash, property, or services rendered, or promissory note or other obligation to contribute cash or property or to perform services, which a member contributes to an LLC in the capacity of a member (Ward, Capital Contribution).

3. An LLC's liabilities can increase the basis of the members in their LLC interests (Ward, Liabilities Increase Basis).
4. A member of an LLC is allowed to contribute appreciated property to an LLC in exchange for a membership interest without having to recognize gain on the transfer (Ward, Contributions of Appreciated Property).
5. LLCs have pass-through tax advantages so the only tax is at the investor level. Members of LLCs also enjoy such tax advantages as increased basis adjustments for company liabilities and stepped-up basis in its assets upon the sale or transfer of a membership interest. LLCs can also allocate income and tax liabilities freely among their members to fit the members needs (Ward, Tax Advantages of Partnerships).
6. Hitchings teaches a system for managing a like kind exchange process for assets used in a trade or business (Hitchings, abstract). A like kind exchange transfers the tax basis from an asset which is retired or relinquished by the owner to another or newly acquired similar asset (Hitchings, 1:[0003]). Hitchings teaches that the invention is generally applicable to any type of like kind exchange that includes information that must be administered and managed (Hitchings, 3:[0028]).
7. A matching engine compares acquired and relinquished leased vehicles. For example, the set of relinquished leased vehicles matched to an acquired leased vehicle are valued at or above 90% of the acquired leased asset value. This value matching permits the like kind exchange transaction to have desirable tax implications by maximizing the value of

relinquished vehicles matched with acquired vehicles (Hitchings, 3:[0032]).

8. Moreau teaches a method to find the total return on a mutual fund. In particular, to find total return, first add together distributions, such as dividends and capital gains distributions, you received during the year. To that figure, then add (or subtract) the change in share price between the beginning and end of the year. Divide the resulting total by the share price at the beginning of the year. Moreau teaches that if you bought or sold shares during the year, you'll need a financial calculator or computer program to figure your true total return, but in the near future some funds may have software to produce such a personalized total return (Moreau, p. 111).
9. "Halifax Account Wrangle" teaches that an investment entity may at any time and from time to time and without any notice limit the amount that may be withdrawn in any month by the investing members ("Halifax account wrangle", p. IV).
10. Appellants stated at oral argument that "We don't deny that people knew about buying properties that were distressed and improving them and selling them, but it took our inventors to understand the combination of these features that really has provided a great benefit" [Oral Hearing Transcript at 5].

PRINCIPLES OF LAW

"Section 103 forbids issuance of a patent when 'the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.'" *KSR Int'l Co. v. Teleflex Inc.*, 127 S.Ct. 1727, 1734 (2007). The question of obviousness is resolved on the basis of underlying factual determinations including (1) the scope and content of the prior art, (2) any differences between the claimed subject matter and the prior art, (3) the level of ordinary skill in the art, and (4) where in evidence, so-called secondary considerations. *Graham v. John Deere Co.*, 383 U.S. 1, 17-18 (1966). *See also KSR*, 127 S.Ct. at 1734 ("While the sequence of these questions might be reordered in any particular case, the [*Graham*] factors continue to define the inquiry that controls.")

In rejecting claims under 35 U.S.C. § 103(a), the examiner bears the initial burden of establishing a prima facie case of obviousness. *In re Oetiker*, 977 F.2d 1443, 1445 (Fed. Cir. 1992). *See also In re Piasecki*, 745 F.2d 1468, 1472 (Fed. Cir. 1984). Only if this initial burden is met does the burden of coming forward with evidence or argument shift to the appellant. *Id.* at 1445. *See also Piasecki*, 745 F.2d at 1472. Obviousness is then determined on the basis of the evidence as a whole and the relative persuasiveness of the arguments. *See Oetiker*, 977 F.2d at 1445; *Piasecki*, 745 F.2d at 1472.

The taking of Official Notice is only proper where the facts are capable of such instant and unquestionable demonstration as to defy dispute. *In re Knapp-*

Monarch Co., 296 F.2d 230, 232 (CCPA 1961). It is not appropriate for the Examiner to take Official Notice of facts without citing a prior art reference where the facts asserted to be well known are not capable of instant and unquestionable demonstration as being well-known as the principal evidence upon which a rejection was based. *See In re Ahlert*, 424 F.2d 1088, 1091 (CCPA 1970).

ANALYSIS

A. Rejection of claims 1-7, 9-22 and 24-28 under 35 U.S.C. § 103(a) as being unpatentable over Ward in view of Hitchings, Moreau, and Official Notice.

The Examiner has applied Official Notice to meet certain limitations set forth in:

- claim 1 - enhancing value by physical improvements and redeeming an interest in an investment entity at a value based on current value (Answer 6);
- claims 2, 3, 4, and 11 - income-producing real estate, inner-city residential properties as categories of real estate (Answer 7);
- claims 5 and 6 - investing in underpriced properties (Answer 7);
- claim 9 – for physical improvements to include refurbishment (Answer 8);
- claim 10 – improving value through improved management (Answer 8);
- claim 26 – for the value of interests to be exchanged for other property to be based on a current value (Answer 9);
- claim 27 – for the redeeming of interests by investors to occur at times determined at least in part by the investors (Answer 9);

- claims 16-22, 24, and 25 – recording and analyzing investments and analyzing properties for possible investment, including analysis of tax advantages (Answer 10); and
- claim 29 – defining an investment profile and acquiring properties and redeeming interests at a successions of different times (Answer 13).

The Appellants criticize the Examiner's taking of Official Notice in connection with

> [t]he rejection of each of the dependent claims as having been obvious based, in many cases, on no more than "official notice" that various elements of the claims were allegedly "well known" and their combination supposedly "obvious" based merely on the asserted "obvious advantage" of the combination.

(Br. 5). Although noting in each case that the Examiner relied only on official notice to support the obviousness of a particular limitation, the Appellants have not specifically pointed out the supposed errors in the Examiner's taking of Official Notice, "includ[ing] stating why the noticed fact is not considered to be common knowledge or well-known in the art. See 37 CFR § 1.111(b)." MPEP § 2144.03(C). An adequate traverse must contain adequate information or argument to create on its face a reasonable doubt regarding the circumstances justifying Examiner's notice of what is well known to one of ordinary skill in the art. *In re Boon*, 439 F.2d 724, 728 (CCPA 1971). That has not been done here. When an Appellant does not seasonably traverse a well-known statement during examination, the object of the well-known statement is taken to be admitted prior art. *In re Chevenard*, 139 F.2d 711 (CCPA 1943).

In our view, the Examiner judicially applied assertions that certain facts are well known or common knowledge in the art by providing a technical line of reasoning underlying the determination of obviousness that is clear and unmistakable. MPEP § 2144.03(B) and (E). We therefore credit the Official Notice of the Examiner with respect to the above listed facts. Appellants have not provided any evidence to rebut these finding by the Examiner. Hence, we find no error in the Examiner's use of Official Notice as cited above and will not separately address those arguments with respect to the individual claims below.

The Appellants argue claims 1-7 and 9-15 as a group. Although each claim is argued under a different heading, the Appellants in each case rely only on the arguments made with respect to claim 1. We therefore treat claim 1 as representative, with claims 2-7 and 9-15 standing or falling with claim 1.

Appellants argue that none of the cited references teach certain limitations of claim 1, in particular, 1) at least one of the real properties being acquired from one of the investors in exchange for an interest in an investment entity; and 2) using a machine to perform limitation (a)-(d) listed above for claim 1. As to the first limitation, Ward teaches that a member of an LLC is allowed to contribute appreciated property to an LLC in exchange for a membership interest without having to recognize gain on the transfer (Finding of Fact 4). Ward further teaches that LLCs have pass-through tax advantages so the only tax is at the investor level. Members of LLCs also enjoy such tax advantages as increased basis adjustments for company liabilities and stepped-up basis in its assets upon the sale or transfer of a membership interest. LLCs can also allocate income and tax liabilities freely

among their members to fit the members needs (Finding of Fact 5). Moreover, an LLC's liabilities can increase the basis of the members in their LLC interests (Finding of Fact 3). One of skill in the art at the time the invention was made thus would have understood Ward to teach 1) allocating each investor's basis in his interest in the investment entity to the properties owned, which Ward teaches can be real properties; 2) allocating each investor's basis in the entity to the properties held via increased basis from LLC liabilities and stepped up basis upon the sale or transfer of a membership interest, which are described as providing tax advantages; and 3) allocating income and tax liabilities freely among members that own real properties. Moreover, Hitchings teaches tracking investor tax basis in individual vehicles and states that its teaches apply to any type of like kind exchange that includes information that must be administered and managed (Finding of Fact 6), which one of skill in the art at the time of the invention would have understood to include the LLC real property exchange of Ward. Moreau teaches from time to time determining a current value of an investment, specifically a mutual fund (Finding of Fact 8), which one of skill in the art at the time the invention was made would have understood, in view of the teachings of Ward and Hitchings, to be applicable to the exchange of properties. We thus find unpersuasive the Appellants arguments that the foregoing limitations are not taught by any of the cited references.

To the extent the Appellants argue in their pre-*KSR* Brief that there is no explicit teaching, suggestion, or motivation to combine Edwards and Hodges with AAPA (Br. 12), that argument is foreclosed by *KSR*. *KSR*, 127 S.Ct. at 1740-41

("the analysis need not seek out precise teachings directed to the specific subject matter of the challenged claim, for a court can take account of the inferences and creative steps that a person of ordinary skill in the art would employ.").

In *KSR*, the Supreme Court emphasized that "[t]he combination of familiar elements according to known methods is likely to be obvious when it does no more than yield predictable results." *Id.* The Court explained:

> When a work is available in one field of endeavor, design incentives and other market forces can prompt variations of it, either in the same field or a different one. If a person of ordinary skill can implement a predictable variation, §103 likely bars its patentability. For the same reason, if a technique has been used to improve one device, and a person of ordinary skill in the art would recognize that it would improve similar devices in the same way, using the technique is obvious unless its actual application is beyond his or her skill.

Id. at 1740. The operative question in this "functional approach" is thus "whether the improvement is more than the predictable use of prior art elements according to their established functions." *Id.*

In this case, modifying Ward to use a machine to track each investor's basis in his interest in the investment entity as taught by Hitchings and from time to time determining a current value of an interest in the investment entity based on the characteristics of the one or more real properties held by a member of the LLC (analogous to the mutual fund shares of Moreau) is no more than the combination of familiar elements according to known methods, which is likely to be obvious

where, as here, it does no more than yield predictable results. *KSR*, 127 S.Ct. at 1734.

Neither Appellants' Specification nor Appellants' arguments present persuasive evidence that modifying Ward to use a machine to track each investor's basis in his interest in the investment entity as taught by Hitchings and from time to time determining a current value of an interest in the investment entity based on the characteristics of the one or more real properties held by a member of the LLC (analogous to the mutual fund shares of Moreau) as suggested by the Examiner would have been uniquely challenging or difficult for one of ordinary skill in the art. Under those circumstances, the Examiner did not err in holding that it would have been obvious to one of ordinary skill in the art at the time the invention was made to use a machine to carry out these steps, for the obvious advantage of efficiently carrying out the necessary functions for tracking investments and returning appropriate sums to investors in the forms of dividends, redemptions of shares, etc., and for the obvious advantage of not having to employ large numbers of scriveners to make the necessary calculations on paper with quill pens. (Answer 6). Because this is a case where the improvement is no more than the predictable use of prior art elements according to their established functions, no further analysis was required by the Examiner. KSR, 127 S.Ct. at 1740.

The Appellants have failed to show error in the Examiner's rejection of claim 1. Claims 2-7, 9-15, and 26-28 were not argued separately, and fall with claim 1. See 37 C.F.R. § 41.37(c)(1)(vii). See also In re Young, 927 F.2d 588, 590 (Fed. Cir. 1991).

Appellants advance the same arguments advanced with respect to claim 1 against claim 16. We find those arguments equally unpersuasive as to claim 16. Appellants additionally argue that claim 16 refers to the investment entity as one that is for exchanging properties through tax-advantaged transactions (Br. 10). We do not find the argument persuasive because Hitchings teaches tracking investor tax basis in individual vehicles in tax advantaged transactions and states that its teaches apply to any type of like kind exchange that includes information that must be administered and managed (Finding of Fact 6), which one of skill in the art would understand to include the LLC property exchange of Ward.

Appellants also argue that claim 16 requires a disciplined portfolio approach that uses diversification and contingent risk minimization, which, according to the Appellants, the Examiner has not alleged to be in any of the cited references including Official Notice (Br. 10). The Examiner found that claim 1 discloses an investment profile and the claims depending therefrom recite particular features of such a profile (claims 2- 5 and 11-15) that when applied in a disciplined manner would make the investment profile a disciplined portfolio approach, and buying properties in different parts of town, which could be a consequence of investing in multiple properties, would be using diversification; or simply applying the techniques recited in several of dependent claims 2-5 and 11-15 could be described as using diversification and contingent risk management (Answer 18-19). We agree with the Appellants that the Examiner has not pointed to any reference that teaches a disciplined portfolio approach that uses diversification and contingent risk minimization. Although the claims referred to by the Examiner further specify

the investment profile limitation of claim 1, none of them require diversification and contingent risk minimization, and the Examiner has not explained how applying the techniques recited in several of dependent claims 2-5 and 11-15 could be described as using diversification and contingent risk management. The Examiner thus has failed to make out a prima facie case of obviousness as to claim 16 over Ward in view of Hitchings, Moreau, and Official Notice. Dependent claims 17-22 and 24-25 therefore are nonobvious as depending from a nonobvious independent claim. See *In re Fine*, 837 F.2d 1071 (Fed. Cir. 1988) (If an independent claim is nonobvious under 35 U.S.C. § 103, then any claim dependent therefrom is nonobvious).

B. Rejection of claims 8, 23, and 29 under 35 U.S.C. § 103(a) as being unpatentable over Ward in view of Hitchings, Moreau, "Halifax Account Wrangle", and Official Notice.

Appellants argue that claims 8 and 23 recite a limitation that the redemption of interests of investors is limited at any one time to a predetermined portion of a value of the properties held by the investment entity. According to the Appellants, the reference cited by the Examiner for this limitation, "Halifax Account Wrangle," says nothing about being limited to "a predetermined portion of a value of the properties" (Br. 13). The Examiner found that it is well known to limit the amount of investments which can be redeemed at any one time, as taught for example, by "Halifax Account Wrangle." The Examiner further found that "it would have been obvious to one of ordinary skill in the art of finance at the time of

applicant's invention for the redemption of interests of investors to be limited at one time to a predetermined portion of a value of the properties held by the investment entity, for the obvious advantage of not requiring the investment entity to liquidate properties overhastily, with likely consequent losses" (Answer 10). We do not find the Appellants' argument persuasive, because "Halifax Account Wrangle" does teach that an investment entity may at any time and from time to time and without any notice limit the amount that may be withdrawn in any month by the investing members (Finding of Fact 9), which of skill in the art at the time the invention was made would have understood to include limiting the amount to a portion of a value of the investment.

Appellants also argue that claims 8 and 23 are patentable for the same reasons as argued with respect to the above rejection of their respective independent claims 1 and 16 (Br. 13). The Appellants arguments with respect to claim 8 are not persuasive for the same reasons stated above with respect to claim 1. Claim 23 depends from 16, and therefore is nonobvious as depending from a nonobvious independent claim. See *In re Fine*, 837 F.2d 1071.

The Appellants also argue that claim 29 is patentable because the Examiner has failed to address the claim features that differ from claim 1 and thus has failed to state an adequate rejection of claim 29. The Examiner noted that the elements of claim 29, essentially match to claim 1 with claims 8 and 26 included (Answer 21). The Appellants do not contest this characterization. Moreover, the Appellants arguments with respect to Official Notice and claim 29 are not well taken as discussed above. The Appellants further argue that the Examiner has given no

basis for the existence of controlling the rate of redemption of interests "to reduce the need to divest properties at depressed values" to fund the redemptions (Br. 11). We find no error in the Examiner's conclusion that "it would have been obvious to one of ordinary skill in the art of finance at the time of applicant's invention for the redemption of interests of investors to be limited at one time to a predetermined portion of a value of the properties held by the investment entity, for the obvious advantage of not requiring the investment entity to liquidate properties overhastily, with likely consequent losses." (Answer 10).

The Appellants have failed to show error in the Examiner's rejection of claims 8 and 29.

CONCLUSIONS

We conclude that Appellants have not shown that the Examiner erred in rejecting claims 1-15 and 26-29 under 35 U.S.C. § 103(a). We conclude that Appellants have shown that the Examiner erred in rejecting claim 16-25 under 35 U.S.C. § 103(a).

DECISION

The decision of the Examiner to reject claims 1-15 and 26-29 under 35 U.S.C. § 103(a) is affirmed. The decision of the Examiner to reject claim 16-25 under 35 U.S.C. § 103(a) is reversed.

No time period for taking any subsequent action in connection with this appeal may be extended under 37 C.F.R. § 1.136(a). *See* 37 C.F.R. § 1.136(a)(1)(iv) (2006).

AFFIRMED-IN-PART

FISCHETTI, *Administrative Patent Judge*, concurring in result.

It is important first to note the particularly close organizational similarities existent between Appellants' machine based method of claim 1 and those of a Limited Liability Company (LLC), such as found in Ward. This may be because the Specification describes that the investment entity may take the form of an LLC (Specification 3: 20), and given the additional protections offered by a LLC against, e.g., premise liability, an LLC is preferable over other entity forms, for example, a limited partnership (Ward, Abstract).

More significantly however, Appellants' claim 1 recites the known practice of buying and selling properties through an entity and not an individual, yet allowing tax benefits of such transactions to flow through to the individual investors. The entity characteristics and resultant functions thereof are established by law for that given entity and when melded with known tax practices in the manner recited in claim 1, yield no more than a predictable result using known methods. *KSR,* 127 S.Ct. at 1739.

In an LLC, members contribute to the entity either with cash or skills and thus obtain an interest or a share in the profit or loss[1]. Such an interest being tied to each member's contribution becomes that member's basis in the assets owned by the entity. In the case of Ward where the assets of the LLC are real estate holdings, this interest further becomes tied to the real estate held in proportional ownership to each member's contribution. In this way, each member's investment

[1] "In implementations of the invention, the management entity may be the same as the investment entity, and the investment entity may also receive cash investments." (Specification 2:29,30)

or interest is allocated among the real estate holdings acquired by the investment entity as required by claim 1.

Tax deferred exchanges for real estate are not invention, but rather are concessions granted by governments to persons, e.g., individuals, limited liability companies, corporations, trusts and partnerships to hopefully promote more effective use of real estate thereby allowing property to be fully and purposely utilized. Appellants' Specification recognizes this goal whereby it states that such tax deferred exchanges promote "enhanced asset growth through refurbishment and improved property management" (Specification 1: 25, 26). This however is not the motivation of invention. While it is a desirable result, it is nevertheless the predictable response to a pubic policy set to encourage improvements and refurbishments to "…properties located in transitional, inner-city locations…." (Specification 5:28, 29).

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